

Report To: **SCHOOLS FORUM**

Date: 18 July 2016

Reporting Officer: Bob Berry – Assistant Executive Director - Learning.
Ian Duncan – Assistant Executive Director - Finance.

Subject: **DEDICATED SCHOOLS GRANT UPDATE**

Report Summary: A report on the arrangements concerning the Dedicated Schools Grant for 2015/16, 2016/17 and future years.

Recommendations: Members of the Schools Forum are requested to note the contents of the report.

Links to Community Strategy: Effectively calculated and targeted resources will improve access to a high quality education experience for all our children.

Policy Implications: Expenditure in line with financial and policy framework.

Financial Implications: The Dedicated Schools Grant is a ring fenced grant solely for the purposes of schools and pupil related expenditure. As such it can only be used within the Schools Budget and is not available for use elsewhere in the Council.

(Authorised by the Borough Treasurer)

There has been no inflation applied to the Dedicated Schools Grant in Tameside by the Department for Education/Education Funding Agency since April 2010. The funding allocated to Tameside is based on the number of pupils on the preceding Autumn Term Pupil Census.

Legal Implications: There is a statutory duty to use resources efficiently and effectively against priorities.

(Authorised by the Borough Solicitor)

Risk Management: The correct accounting treatment of the Dedicated Schools Grant is a condition of the grant and procedures exist in budget monitoring and the closure of accounts to ensure that this is achieved. These will be subject to regular review.


ACCESS TO INFORMATION

NON-CONFIDENTIAL

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers

The background papers relating to this report can be inspected by contacting Stephen Wilde – Head of Resource Management, Directorate of Finance by:

 Telephone: 0161 342 3726

 e-mail: stephen.wilde@tameside.gov.uk

1. BACKGROUND AND INTRODUCTION

1.1.1 A report on the changes to the schools funding process was initially brought to the Schools Forum in May 2012 following consultation by the Department for Education (DFE) and the Education Funding Agency (EFA) which started in March 2012. The DFE/EFA have been clear that the new funding formula will:

- Be a precursor to a national funding formula, to be administered by the EFA in the next Comprehensive Spending Review period which is still expected to be from 2015/16;
- Ensure that 'funding follows the pupil' by restricting the ability to direct funding towards school organisation or premises issues;
- Reward schools that attract pupils;
- Ensure transparency, so schools in similar positions receive similar levels of funding;
- Be simpler than the current process; and
- Maximise delegation.

1.2 In this context, and as agreed with the Heads and Chairs of Governors, the priority for the 2013/14 local funding formula was to work within the parameters established by the DfE, whilst trying to secure financial stability for local schools as they moved from one funding regime to another. This approach was continued in 2014/15, 2015/16 and 2016/17 where only minor changes were made to funding unit rates in Tameside.

1.3 Based on summary data released by the DFE/EFA the most notable area in relation to the Tameside funding scheme was that 96.3% of DSG was delegated to Schools in Tameside in 2014/15, which is a high level compared to other authorities nationally.

1.4 Section 2 of the report provides a summary update on DSG funding in 2016/17 and future years.

1.5 Section 3 contains a summary of the DSG allocations from the DFE/EFA and how they were used in Tameside in 2015/16 and the estimated use in 2016/17.

1.6 Section 4 is an update on the potential for reducing the Gains Cap on Mainstream School funding in 2016/17.

2. DEDICATED SCHOOLS GRANT UPDATE 2016/17 & 2017/18 – SCHOOLS BLOCK

2.1 The Schools Block is the largest element of DSG funding which provides the majority of funding for Mainstream Schools, with additional elements potentially being allocated to Mainstream Schools through the Early Years and High Needs blocks. The DFE carried out a "Fairer Schools Funding 2015/16" consultation in relation to proposed changes to the Schools Block element of the DSG earlier this year. As a result of the responses they received to the consultation the DFE agreed to some minor changes to their original proposals, but no significant changes were made to them.

2.2 Over the last three years the DFE have consistently stated that School funding is unfairly allocated. They believe that Schools with similar characteristics in different Local Authority areas are allocated substantially different levels of funding as a result of historic funding allocations. The DFE have used data provided by each Local Authority in relation to the unit rates used in 2013/14 in their respective local funding formulae to arrive at minimum levels of funding for each Local Authority. These Minimum Funding Levels (MFL) per pupil also include a hybrid area cost adjustment which is intended to reflect prevailing market rates.

2.3 The DFE have then taken the Local Authority specific MFL and multiplied it by the number of Schools Block eligible pupils used to calculate funding in 2014/15 (i.e. October 2013 Census data on children in the age groups from Reception to Year 11) to arrive at an estimated Local Authority level MFL for 2015/16 and compared it to the actual Schools Block funding allocated to each Local Authority in 2014/15. This analysis is summarised in the table within section 2.4 below. The 62 Local Authorities who would receive additional DSG Schools Block funding through the MFL calculation than they did through the previous calculation method were allocated a share of £350m additional funding in 2015/16 and this did not include Tameside.

2.4 **Table 1**

Tameside Indicative MFL and DSG Schools Block Allocation for 2015/16		
1	Indicative MFL Schools Block Total Allocation 2015/16 Issued by DFE Summer 2014	£144.170m
2	Indicative MFL Number of Pupils 2014/15	31,677
3	Indicative MFL Schools Block Allocation 2015/16 Per Pupil	£4,551.34
4	Actual DSG Schools Block Allocation Per Pupil 2014/15	£4,717.42
5	Estimated DSG Schools Block Total Allocation 2015/16	£149.434m
6	Estimated DSG Schools Block Total Allocation 2015/16 in Excess of	£5.264m
7	MFL	3.52%

2.5 The table in section 2.4 above shows that Tameside will not receive any additional DSG Schools Block funding in 2015/16 or 2016/17 through the MFL. The DFE have indicated that there will be no reduction in DSG funding rates for Local Authorities in 2016/17, but the use of the new MFL calculation suggests that there is potential for this position to change from 2017/18 onwards. The DFE has given no indication of whether the 2017/18 Schools Block allocation will be based on MFL rates, but if it was fully implemented by the DFE without any protection then there would be an estimated reduction of £5.264m which equates to 3.52% of the current allocation.

2.6 Due to the scale of the potential reduction in funding from 2017/18 onwards which is summarised above it is considered prudent to provide Schools/Academies with estimates of the worst case budgets that could arise from full implementation of the MFL. Therefore during March 2016 the Council will issue funding estimates for 2017/18 that are based on both the DFE's new MFL proposal and on the basis of the current local funding scheme. The DFE have given no clear indication of what level of Minimum Funding Guarantee will be provided to Schools in 2017/18 or the timescales for implementation and phasing of the MFL based allocations.

2.7 One option in relation to 2015/16 funding was to alter the local funding scheme so that the unit rates allocated were based on the MFL unit rates in table 2.4 above, which would have resulted in a large number of Schools being allocated substantial MFG balances in 2015/16. This was not the recommended proposal of the DFE or Tameside Council and was not implemented. There is no proposal to implement this change in 2016/17 either.

2.8 There is no inflation on the DSG in 2016/17 and this means that the only additional funding through DSG next year relates specifically to increased numbers of children. The DFE/EFA have indicated that they will be launching two consultations over the next few months in relation to further nationalisation of the funding formula for Schools, but they had not shared any details of this at the time of writing this report.

2.9 Section 3 of this report summarises the high level use of the DSG in 2015/16 and 2016/17 and a separate report to this meeting provides details of the centrally managed DSG in 2015/16. Based on this information and the lack of clarity from the DFE/EFA about their future proposals the proposal to establish a School Funding Formula Review group to

consider options for formula review in 2017/18 and beyond has been put on hold until the second stage of DFE/EFA consultation details are released. Stage one of the consultation was largely concerned with the proposed principles of the scheme and did not contain any details of the effect on individual School funding. A copy of the consultation document questions and the responses made by the Resource Management service are contained in **Appendix A and Appendix B**.

- 2.10 There is a significant increase in the projected numbers of children attending Secondary Schools over the next four years, which is expected to be anywhere between 350 and 450 children. In the Tameside 2016/17 Mainstream funding formula the average funding allocated per pupil is £4,088 in the Primary School sector and £5,225 in the Secondary School sector, meaning a difference in funding per pupil between the two sectors of £1,137.
- 2.11 Therefore if the number of children in the Primary sector were to decrease by a similar amount as the increase in the Secondary sector then the increase in funding that would have to be allocated to Schools would be approximately £113,700 for every 100 children and there would be no DSG to support this cost.
- 2.12 Alternatively if the number of children in the Primary sector remained static, but there was an increase in the Secondary sector of 100 children then the increase in funding that would have to be allocated to Schools would be approximately £51,509 for every 100 children and as in the example in 2.11 above, there would be no DSG to support this cost. (The DFE/EFA allocate £4,709.91 per Tameside child in DSG funding regardless of age so in this example the calculation is 100 multiplied by the difference between the funding rate per child of £4,709.91 and the average funding per pupil of £5,225).
- 2.13 The Gains Cap is the DFE/EFA method of funding the Minimum Funding Guarantee (MFG) for Schools. In summary the MFG is a mandatory protection applied by the DFE/EFA which protects School budgets from significant annual variations in their per pupil funding and results in £1.946m of funding being allocated to just under half the Schools in Tameside in 2016/17. The DFE/EFA does not allocate any DSG to fund the MFG and their solution to funding the cost of the MFG is to allow a cap on per pupil gains for Schools who would otherwise have gained from the changes to the funding that started in April 2013.
- 2.14 The Gains Cap was originally set at 100% for 2016/17 in order to ensure that the School Funding scheme could be fully funded, which amounts to £1.538m in reduced funding affecting just under half the Schools in Tameside. The level of Gains Cap will be reviewed for 2017/18 once more information about the DFE/EFA proposals described above is available. The level of Gains Cap for 2016/17 is discussed further in Section 4.
- 2.15 De-delegation is the terminology employed by the DFE in relation to Schools Forum representatives of Council Maintained Schools voting on whether to support mandatory charging to all other Council Maintained Schools of certain Council services. The Primary and Secondary sector vote separately in relation to each of the services. The De-delegation rates in 2016/17 were the same for 2016/17 as in 2015/16.

3. DEDICATED SCHOOLS GRANT SUMMARY 2015/16 & 2016/17

- 3.1 The table below summarises the gross allocations of DSG to Tameside from financial year 2015/16 by DFE/EFA funding block.

Table 2

2015/16 DSG Allocations from DFE/EFA	£'000
Schools Block	150,892
Early Years Block	7,401
Pre 16 High Needs Block	13,263
Post 16 High Needs Block	1,469
2 Year Old Block	2,469
NQT Block	48
Early Years Pupil Premium	265
2015/16 Gross DSG Allocation Before DFE/EFA Recoupment	175,807

- 3.2 The table below summarises the deductions made to the gross DSG allocation in 2015/16 by the DFE/EFA in relation to Mainstream Academies and both Academy and Non Maintained Special School places. It also shows the net allocation of DSG after those deductions. In addition to the deduction values shown in Table 3 below the DFE contacted the Council by email on 5 May 2016 to advise that they would be increasing the Academy Recoupment value in relation to Inspire Academy by £92,763. As this notification was so late and all of the DSG funding for 2015/16 had already been committed, this deduction will be funded from the unspent 2 year old funding brought forward from 2014/15.

Table 3

	£'000
2015/16 Gross DSG Allocation Before DFE/EFA Recoupment	175,807
DFE/EFA Recoupment Deduction for Academy Mainstream Schools	-40,223
DFE/EFA Recoupment Deduction for Non Maintained Special School High Needs Places	-227
DFE/EFA Recoupment Deduction for Academy Special School High Needs Places	-660
2015/16 Total DFE Recoupment Deduction	-41,110
2015/16 Net DSG Allocation to Tameside	134,697

- 3.3 The table below summarises how the net DSG allocation has been used in Tameside and the estimated shortfall in the 2015/16 grant compared to how it has been used.

Table 4

- 3.4 The table below summarises how the shortfall in DSG funding in 2015/16 will be managed.

	£'000
2015/16 Net DSG Allocation to Tameside	134,697
2015/16 Net DSG Allocation in Tameside	
Schools Block	108,171
Early Years Block	7,578
Pre 16 High Needs Block	14,097
Post 16 High Needs Block	2,354
2 Year Old Block	2,858
NQT Block	48
Early Years Pupil Premium	265
2015/16 Total Net DSG Allocations in Tameside	135,371
2015/16 Allocations in Excess of Current 2015/16 DSG Allocation from DFE/EFA	674

Table 5

2015/16 Allocations in Excess of Current 2015/16 DSG Allocation from DFE/EFA	674
2015/16 Excess Allocations to be funded from :	
Estimated DSG Grant Debtor	567
Estimated Shortfall in DSG Needed from DSG Carried Forward 2014/15	107
	674

- 3.5 The table below summarises the estimated gross allocations of DSG to Tameside from the current financial year 2016/17 by DFE/EFA funding block. The only significant change in gross funding terms between 2015/16 and 2016/17 is in the Schools Block and directly relates to increased numbers of children from the Autumn Pupil Census 2015.

Table 6

2016/17 DSG Allocations from DFE/EFA	£'000
Schools Block	153,652
Early Years Block	7,401
Pre 16 High Needs Block	13,515
Post 16 High Needs Block	1,469
2 Year Old Block	2,469
NQT Block	47
Early Years Pupil Premium	265
2016/17 Gross DSG Allocation Before DFE/EFA Recoupment	178,818

- 3.6 The table below summarises the estimated deductions made to the gross DSG allocation in 2016/17 by the DFE/EFA in relation to Mainstream Academies and both Academy and Non Maintained Special School places. The most significant changes since the last report in March 2016 relate to Academy conversions from 1 April 2016 onwards. Table 7 also shows the estimated net allocation of DSG after those deductions.

Table 7

	£'000
2016/17 Estimated Gross DSG Allocation Before DFE/EFA Recoupment	178,818
DFE/EFA Recoupment Deduction for Academy Mainstream Schools	-44,004
DFE/EFA Recoupment Deduction for Non Maintained Special School High Needs Places	-92
DFE/EFA Recoupment Deduction for Academy Special School High Needs Places	-660
2016/17 Total DFE Recoupment Deduction	-44,756
2016/17 Net DSG Allocation to Tameside	134,062

- 3.7 The table below summarises how the estimated net DSG allocation has been used in Tameside and the estimated shortfall in the 2016/17 grant compared to how it is expected to be used.

Table 8

	£'000
2016/17 Net DSG Allocation to Tameside	134,062
2016/17 Estimated Net DSG Allocation in Tameside	
Schools Block	106,497
Early Years Block	7,556
Pre 16 High Needs Block	14,231
Post 16 High Needs Block	2,500
2 Year Old Block	3,008
NQT Block	47
Early Years Pupil Premium	265
Total 2016/17 Estimated Net DSG Allocations in Tameside	134,104
Allocations in Excess of Current 2016/17 Estimated DSG Allocation from DFE/EFA	42

- 3.8 The estimated shortfall of £42,000 of DSG funding in 2016/17 shown in Table 8 in section 3.7 above, does not take account of expected retrospective allocations of DSG which relate to 2, 3 and 4 year old Nursery funding. Once those retrospective allocations are made there is expected to be a surplus of DSG funding in 2016/17 of approximately £307,000. Section 4 of this report describes how the Council is proposing to use this surplus and the DFE/EFA regulations surrounding its use.

4. PROPOSED REDUCTION OF GAINS CAP FUNDING IN 2016/17

- 4.1 When the Dedicated Schools Grant (DSG) budgets for 2016/17 were set in late January 2016 the cap on gains in the Mainstream School funding formula was set at 100% compared to the equivalent cap being set at 80% and 60% in previous financial years. When the 2016/17 funding scheme was presented to Schools Forum on 2 March 2016 it was proposed that any unspent DSG funding in 2016/17 would be used to reduce this cap on gains and we are now in a position where the cap can in theory be reduced by 20%.
- 4.2 This change in the overall funding position for 2016/17 relates to greater clarity about Post 16 High Needs costs and the use of unspent 2 year old funding from 2014/15 to support the newly opening Academy Diseconomies costs discussed in a Forum report in March 2016. This means that Schools with a Gains Cap could in theory now receive a share of £307,000 which would equate to a Gains Cap of 80%, rather than 100%. This allocation would be funded from the unallocated DSG in 2016/17 referred to in Section 3 above.
- 4.3 Those Schools which have a Minimum Funding Guarantee (MFG) allocation are not affected by this change, as their funding was already being protected. The Schools who will receive funding as a result of this change are those where allocations were reduced to enable the MFG Schools to receive their funding protection.
- 4.4 However, when the EFA were contacted about this delayed reduction of the Gains Cap they confirmed that the Council could not make this allocation to Schools/Academies this late in the year. Their advice is that the Council would need to seek a disapplication of the funding regulations from the Secretary of State, which would allow the Council to make these payments as a one off payment in 2017/18. Clearly this decision is not what we had hoped for in order to support Schools in a timely manner, but given the EFA advice on the issue the Council will progress the disapplication request and advise Schools of the Secretary of State decision. If the proposal is refused then the funding would be added to the 2017/18 funding and allocated through the formula in 2017/18, but ideally it would be approved to ensure that the allocation is based on 2016/17 levels of funding for each School, rather than 2017/18 levels.

5 RECOMMENDATIONS

5.1 Members of the Schools Forum are requested to note the contents of the report.